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ECONOMIC NEWSLETTER

Russian Research Center
Harvard University

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SOVIET TRADE WITH EASTERN EUROPE

The Soviet trade relationship with Eastern Europe has changed significantly from what it was prior to 1987. The movement away from the very large trade surpluses that the Soviet Union had developed with Eastern Europe began in 1987. It shows up in a much more dramatic way, however, for all of 1988. Official figures for the whole year indicate that the Soviet trade deficit approximated 2.4 billion rubles. That contrasts with a trade surplus of 2.6 billion rubles only two years earlier, in 1986.

While much of the change is due to the fact that the price of oil has dropped (that is why Soviet trade exports to the whole bloc were down 1.6 billion rubles in 1988 compared to 1987, and down by 3 billion rubles from 1986), it also happens that the imports from Eastern Europe had increased in 1988 by approximately 700 million rubles. Thus, in addition to the drop in the price of oil, there also seems to be some increase in imports from Eastern Europe to the Soviet Union. There have been some complaints about this from the East Europeans who argue that they are being forced to pay for at least a part of *perestroika*. Soviet trade with Poland reflects the biggest shift. Thus, in 1988, the Soviets imported 800 million rubles' worth of goods more than they exported to Poland. In contrast, in 1987 the Soviets exported over 200 million rubles more than they imported and of course that contrasts markedly with 1981, when the Soviets supported Poland with 1.7 billion rubles' worth of goods above the value of what was imported from Poland. Those were the years when the Solidarity movement had disrupted the economy. And now it looks like the Poles are paying back the Soviets for that trade surplus and clearly that imposes a burden on Poland.

The only Eastern European country that had a trade surplus with the Soviet Union in 1988 was the German Democratic Republic. In 1987, Poland and Romania also had trade surpluses. These were eliminated in 1988.

The main goal of trade in Eastern Europe is to make sure that you have no surplus in the trade balance with your partner. That is because the rubles that are earned buy nothing. The East European countries have been complaining that the rubles they are accumulating have actually added to the inflationary pressure within their countries. That is because local currencies are paid off for the products that are produced, but then there is nothing in turn for the local workers to buy with that currency. It will be interesting therefore to see how much longer the Soviets accumulate a trade surplus like this before there are severe protests from their trading partners.

SOVIET BALANCE OF TRADE WITH EASTERN EUROPE
(in million rubles)

Exports from U.S.S.R.

	1980	1981	1982	1983	1984	1985	1986	1987	1988
Bulgaria	3660	4375	4885	5511	6124	6435	6788	6276	6094
Czecho-slovakia	3648	4382	5048	5872	6591	6813	6947	6777	6385
GDR	4873	5526	6420	6798	7481	7652	7880	7636	7193
Hungary	2982	3307	3707	4058	4321	4560	4678	4600	4484
Poland	4406	4931	4813	5274	6069	6517	6814	6542	6298
Romania	1350	1779	1424	1640	1807	1949	2823	2539	2344
	20919		26297		32393		35930		32798
		24300		29153		33926		34370	

Imports to U.S.S.R.

	1980	1981	1982	1983	1984	1985	1986	1987	1988
Bulgaria	3439	3697	4288	5053	5608	6040	6191	6552	6873
Czecho-slovakia	3536	4105	4732	5420	6017	6587	6556	6907	6817
GDR	4327	5155	5776	6596	7367	7553	7128	7093	7024
Hungary	2757	3300	3746	4007	4434	4850	4873	5080	4943
Poland	3596	3221	4097	4787	5297	5525	6128	6329	7109
Romania	1441	1673	1683	1665	1755	2277	2415	2347	2431
	19096		24322		30478		33291		35197
		1151		27528		32832		34408	
Balance of Trade	+1823	+3149	+1975	+1625	+1915	+1094	+2639	-38	-2399

*Note switch in balance

FOREIGN EXCHANGE RATES
March 15, 1989 to April 12, 1989

Quoted in rubles

	March 29	April 5	April 12	April 26	May 10
£100 Sterling	107.57	105.78	106.49	106.81	106.05
100 Aust. Sch.	4.74	4.73	4.75	4.79	4.74
100 D. Marks	33.40	33.36	33.45	33.72	33.34
100 D. Guilders	29.59	29.54	29.64	29.88	29.58
100 U.S. Dollars	62.56	62.91	62.77	62.30	63.19
100 Fr. Francs	9.86	9.88	9.90	9.94	9.88
1,000 Jap. ¥	4.74	4.76	4.73	4.75	4.71
10,000 It. Lire	4.54	4.55	4.56	4.59	4.57
100 Swiss Frs.	38.44	38.03	38.02	38.17	37.36
100 Nor. Kroner	9.19	9.17	9.20	9.27	9.21
1,000 Bel. Frs.	15.94	15.91	15.97	16.10	15.95
100 Sw. Kronor	9.80	9.79	9.82	9.88	9.84

Interested in a course on how to survive in Moscow?

With the large number of Americans going to Moscow, we have been approached by some corporations asking if we would repeat the survival course we arranged a few years ago for Corning Glass. At that time they were sending staff to build a turnkey television tube plant in Lvov.

We are considering the possibility of offering such a week-long course in the future if there is enough interest. Anyone interested should write Marshall Goldman at the Russian Research Center.

In the meantime, we have a partial solution for those who are looking for such a course. The Harvard Alumni Association, in conjunction with the Russian Research Center, is putting on a three-day program entitled "The Soviet Union under Gorbachev: A New Russia?" It is more of an orientation and a quick but intensive immersion into Russian culture, history, politics, and economics. Some corporate executives are being sent to the program to prepare them better for their stay in the Soviet Union. There are still places available and those interested in attending should contact the Harvard Alumni Office directly since they are handling the logistics. A copy of the program is enclosed.

We are also prepared to help in another way. A recent emigre from the Soviet Union has been offering counseling and leading small group discussions for people who are about to go live in the Soviet Union. Her name is Tanya Zieman and she and her family now reside in the Boston area. Her English is excellent and she is highly sophisticated and we have offered to inform our readers of her providing such counseling. Anyone interested should contact Mrs. Zieman directly at (617) 484-2260 or 28 Gilbert Road, Belmont, MA 02178.

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The Harvard Alumni Association
and
The Russian Research Center
of
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present

The Soviet Union under Gorbachev: A New Russia?

June 28 - July 1

Wednesday, June 28		
3:00-6:00 pm	Check-in/Registration	North House (for those staying at North House)
3:00-6:00 pm	Check-in/Registration	Lobby Charles Hotel (for those staying at the Charles and for commuters)
6:00-7:00 pm	Welcome Reception	Ballroom Foyer Charles Hotel
7:00-8:30 pm	Dinner *Opening Remarks* Professor Adam B. Ulam Director Russian Research Center	Ballroom Charles Hotel
Thursday, June 29		
8:15-9:00 am	Late Registration	Langdell Hall
9:00-10:30 am	*Background of Soviet Political Culture* Professor Edward L. Keenan Chairman Department of History	Langdell Hall
10:30-11:00 am	Coffee Break	
11:00 am-12:30 pm	*Russia on the Eve of the Revolution* Professor Richard Pipes Frank B. Baird Professor of History	Langdell Hall
12:30-1:30 pm	Luncheon	Ropes Gray Room Pound Hall
2:00-3:30 pm	*The Impact of World War II* Alexandr M. Nekrich	Langdell Hall
3:30-5:30 pm	Optional Discussion Groups and Film ("Repentance")	North House
6:00-7:00 pm	Cocktails	North House
7:00 pm	Dinner	North House

(continued)

ADDENDUM TO PROGRAM, page 4

RUSSIAN RESEARCH CENTER/HARVARD ALUMNI ASSOCIATION CONFERENCE
JUNE 28-JULY 1: **THE SOVIET UNION UNDER GORBACHEV: A NEW RUSSIA?**

Soviet Ambassador Yuri Dubinin will speak at the opening dinner on Wednesday, June 28, at the Charles Hotel.

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Friday, June 30

9:00 - 10:30 am	*Stalin's Russia* Professor Adam B. Ulam	Langdell Hall
10:30-11:00 am	Coffee Break	
11:00 am- 12:30 pm	*Soviet Literature* Professor Donald L. Fanger Department of Slavic Languages	Langdell Hall
12:30-1:30 pm	Luncheon	Ropes Gray Room Pound Hall
2:00-3:30 pm	*Glastnost and Democratization* Professor Timothy J. Colton Department of Government	Langdell Hall
3:30-5:30 pm	Optional Discussion Groups and Film ("Repentance")	North House
6:00-7:00 pm	Cocktails	North House
7:00 pm	Dinner	North House

Saturday, July 1

9:00-10:30 am	*Perestroika: The Economic Reforms* Marshall I. Goldman Associate Director Russian Research Center	Langdell Hall
10:30-11:00 am	Coffee Break	
11:00 am- 12:30 pm	*Soviet Russia and the West* Professor Adam B. Ulam	Langdell Hall
12:30-2:00 pm	Farewell Luncheon *Closing Remarks* *Foreign Trade:* *Its Significance and Implications for the United States* Marshall I. Goldman	Ropes Gray Room Pound Hall

Los Angeles Times Friday, May 19, 1989

The Pied Piper of Democracy

Gorbachev Must Ponder His Impact on China—and at Home

By MARSHALL I. GOLDMAN and MERLE GOLDMAN

What the Chinese leaders never anticipated when they set their date for a summit with Mikhail S. Gorbachev was that the Soviet leader would end up serving as a battering ram for democratization within China. After all, the Chinese weathered an earlier visit by President Bush with no protest by students or anyone else. Indeed, the dissident Fang Lizhi was prevented from attending the President's dinner with no evident repercussions from either the United States government or the Chinese public.

Now, the Chinese leaders must be asking themselves how they ever got into this situation. And Gorbachev himself must be wondering how he came to be perceived as the Pied Piper of democracy. Even with *glasnost* and democratization, democracy in the Soviet Union is a fragile and very incomplete flower. For example, Gorbachev last month reinstituted the law that makes it a crime to criticize or embarrass the Soviet Union. And although he later praised the striking Chinese students, his attitude may have been best expressed with a put-down. "We have our hotheads, too," he said, reflecting his very real concern about equally large, but often violent, nationalist demonstrations he has had to deal with in Armenia, Georgia, the Baltics and Belorussia.

When Gorbachev came to power in March, 1985, he showed little interest in expanding democracy within the Soviet Union. True, he spoke of *glasnost* early on. What he meant, though, was that it is important to criticize wrongdoing and incompetence among bureaucrats—but little more.

It wasn't until a year-and-a-half later, when he saw that his economic reforms were not working, that he began to advocate democratization along with *glasnost*. He realized that he had to do something to overcome worker alienation from the existing system. The Soviet people would simply refuse to exert themselves as long as they saw that the results of their efforts were being drained off by the party and government elite, who were unaccountable to the public. To end this, Gorbachev introduced elections with secret ballots and more than one candidate. There is good reason, however, to wonder if Gorbachev would have resorted to such measures if the Soviet economy had been doing better.

The contrast with China is instructive. Deng Xiaoping began his reforms with some unprecedented economic successes. Rates of growth and improvements in peasant and worker well-being were immediate and real. Deng could afford to ignore political reforms.

Small numbers of intellectuals and students called for more human rights and democratization, but for the most part China's people seemed to be absorbed by and content with their new well-being. As a consequence, party leaders gave little attention to political reform.

Last year, however, the situation in China changed dramatically. The economy began to grow too fast. Despite its abundant labor force, China began to experience bottlenecks, particularly with raw materials and electricity. With the introduction of price reforms, inflation jumped to 18% officially and close to 40% unofficially. Because of earlier disastrous encounters with inflation in the 1940s, Chinese leaders decided to halt the increases in prices even if it meant curbing growth. Among other measures, they suspended many major investment projects. As a consequence, peasants from the countryside hired to work on construction projects suddenly found themselves unemployed, as did many urban workers. In the meantime, prices as well as discontent continued to grow.

Suddenly the voices demanding democratization became louder and more organized. Charges that the children of leaders had unfairly enriched themselves, as well as calls for pluralism and dissent, now began to spread, especially in the aftermath of the impressive Soviet elections in late March. The immediate spark was the death of Hu Yaobang, who had been purged in 1987 for supporting protests by Chinese students. The spark became a fire with the coming visit of Gorbachev, the very dramatic symbol of political change in the Soviet Union. But what gave the voices a mass base was the upheaval in the economy.

As Gorbachev returns home, he will certainly ponder not only his catalytic impact on China, but also its meaning for the Soviet Union. In one sense, he returns a conquering hero, especially among Soviet intellectuals who, like their Chinese counterparts, want democratic reform. But the message may be different among the ordinary people. Students in the Soviet Union have not traditionally precipitated change, but intellectuals and workers have. Watching Gorbachev's impact in China, they might also decide to vent their frustration through mass demonstrations. But their demands may be different. Unlike China, the Soviet Union's problem is not so much political reform, but economic reform and an increase in economic well-being. Because of serious and growing shortages of consumer goods, strikes by Soviet workers have been cropping up all over the country, further disrupting production. In addition, there is increased rationing of basic food products.

Gorbachev must now worry about a comparable massive outpouring. That is not why he went to China.

Marshall I. Goldman is associate director of the Russian Research Center at Harvard University and a professor of economics at Wellesley College. Merle Goldman is professor of Chinese history at Boston University.

"Don't be alarmed, Comrade Gorbachev—that was meant for us!"